



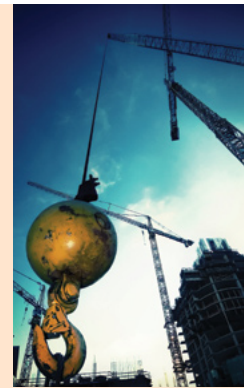
The Good News In Oil and Gas

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Texas Housing: Slowing But Still Growing, Bucking National Trend

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FISCAL NOTES

A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts, April 2007

MARCH REVENUE (IN MILLIONS): SALES TAX: \$1,540.5 OIL PRODUCTION: \$66.5 NATURAL GAS: \$142.5 MOTOR FUELS: \$237.2 MOTOR VEHICLE SALES: \$281.9 TOBACCO: \$139.1

Around Texas

- The U.S. Department of Energy tabbed Texas as a finalist for a wind turbine research facility.
- Gov. Rick Perry called for a special election May 12 to let voters decide on extending property tax rate cuts to homeowners 65 or older.
- Dallas-based Tiger Truck will build the first U.S. assembly plant for Chinese trucks in Jasper, Texas.
- The Texas Senate approved a bill that allows Texans to use deadly force to protect homes.
- The University of Texas at Austin licensed a drug delivery technology to Mimetic Solutions.

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The State of the Texas Economy: The Biennial Revenue Estimate

Comptroller Forecasts State Economy, Revenues.

The Texas economy is cooling, but far from cold. Its growth will continue to meet or exceed the national average over the next several years. And that will keep state revenues healthy.

Those are the major conclusions of the Comptroller's biennial revenue estimate (BRE) for the 2007 Texas Legislature, covering the state's next two-year budget period, 2008-09.

"This is a great time in Texas," said Texas Comptroller Susan Combs. "Our state's strong economy is continuing to produce revenue growth to serve Texans' needs. However, it is my duty as Comptroller to point out that I do expect a cooling of the economy in the months ahead."

For the 2008-09 biennium, Combs estimates that the Legislature will have \$82.5 billion in general revenue available for



appropriation, in addition to \$79.3 billion in state and federal funds dedicated to various specific purposes, such as Medicaid and the Permanent School Fund.

Looking Ahead

For every regular session of the Legislature, the Comptroller's office produces an estimate of available state revenues for the following two years, based on its forecast of the underlying state economy.

CONTINUED PAGE 11

Space Available

Texas' Commercial Real Estate In Line With Housing Market

Families and businesses are moving to Texas, and construction crews are racing to keep up.

Residential construction reached a 22-year high—more than 212,000 units built—according to the Comptroller's *Biennial Revenue Estimate for 2008-2009*. In turn, non-residential construction increased by more than 13 percent in fiscal 2006, proof the state enjoyed a construction boom in 2005 and 2006.

While the BRE forecasts a slowdown over the next three years, Texas' commercial real estate market continues to thrive, according to Harold Hunt, a research economist with Texas A&M's Real Estate Center.

"Texas is doing well," Hunt said. "Occupancy is increasing, rents are increasing, and the environment for commercial real estate is good, certainly."

Riding on the Metro

The metropolitan areas of Texas carry the load of the state's employment, about 71 percent, according to Grubb & Ellis' (G&E) *2007 Real Estate Forecast*. Grubb & Ellis is a leading commercial real estate organization that provides a range of transaction, management and consulting services.

Employment grew by 2.8 percent statewide from December 2005 to December 2006, according to the Texas Workforce Commission. And the performance of the state's metro areas is generally a good indication of how things are around the state, Hunt said.

Companies like Samsung in Austin, Sanyo Energy and an expansion of operations by Home Depot in Dallas, as well as San Antonio's new Toyota Tundra production facility are a

few of the additions and expansions to the growing Texas business roster, according to Ariel Guerrero with G&E's Houston office.

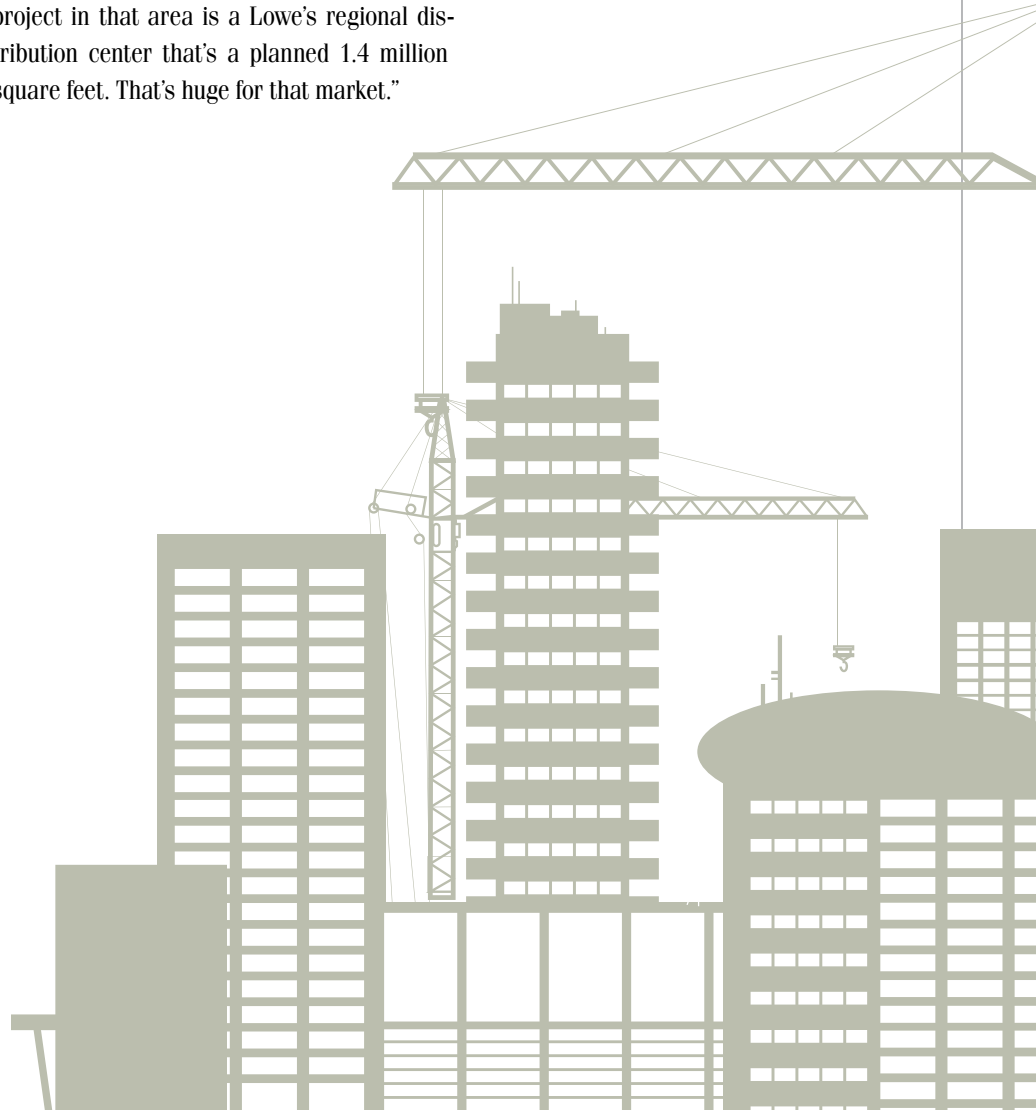
"In the last couple of years, they're going bonkers down in San Antonio," Guerrero said. "Toyota has helped put San Antonio back on the

More than 1.8 million square feet of office and industrial space in San Antonio was under construction at the end of 2006, according to G&E, signs that the Texas employment climate is still gaining strength, Guerrero said.

"Texas is doing well," **Harold Hunt said.** "Occupancy is increasing, rents are increasing, and the environment for commercial real estate is good, certainly."

development radar and now Lack's Furniture is looking at doing a distribution warehouse on the outskirts of San Antonio. Another big project in that area is a Lowe's regional distribution center that's a planned 1.4 million square feet. That's huge for that market."

"Texas is outpacing the national economy right now in job growth," he said. "Our cost of living and the cost of doing business in Texas



are low. It's just a very business-friendly economic climate right now."

And as businesses continue to move in, asking prices on rent led to a good year in 2006, according to Robert Kramp, vice president and director of National Client Services for G&E.

"Last year was a very good year for landlords in the industrial and office real estate market," Kramp said. "In terms of the office market, Houston alone had its best year since 1997. We had a large spike last year in asking rents, and we expect that to continue in 2007, maybe not as high, but continue."



Where the People Are

As Texas' population expands, commercial real estate development is following, Kramp said.

"As large tracts of land are traded for residential development, the 'big box' type of commercial developments are following along right behind them," Kramp said.

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"In the last couple of years, they're going bonkers down in San Antonio," **Ariel Guerrero** said. "Toyota has helped put San Antonio back on the development radar and now Lack's Furniture is looking at doing a distribution warehouse on the outskirts of San Antonio."

CONTINUED FROM PAGE 3

Other developers are offering “mixed use” projects, containing a little bit of everything for the nearby populace, Guerrero said.

“We’ve seen a lot of lifestyle center development, a lot of mixed use development,” he said. “Like a shopping center but with a little bit of everything, like some office space and even some apartment units included.”

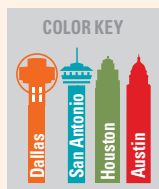
“As large tracts of land are traded for residential development, the ‘big box’ type of commercial developments are following along right behind them,” said Robert Kramp.

Whether it’s big box retailers in Houston, mixed use projects in Austin or revitalization efforts in downtown Dallas, it looks like the building will continue.

A lot of speculative projects are being built, Guerrero said.

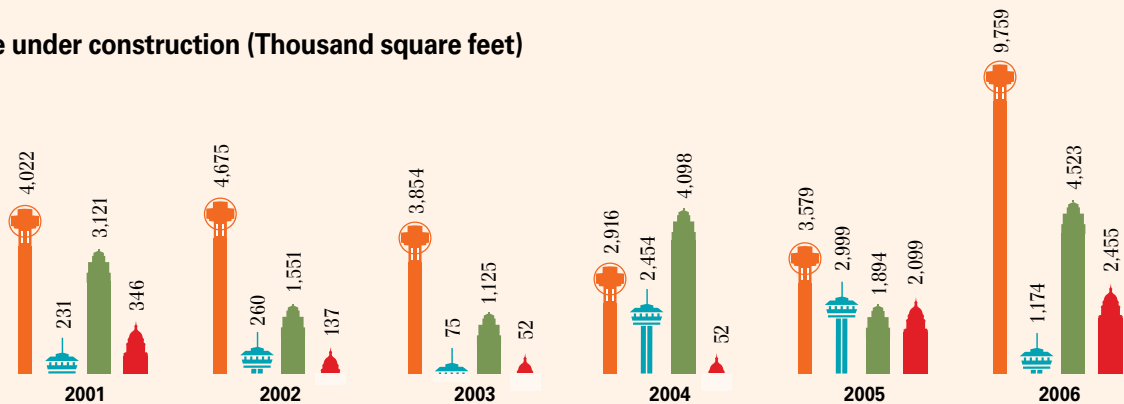
“A lot of developers will move right ahead, knowing that the demand will be there when it’s ready,” he said. **FN**

No Small Feat

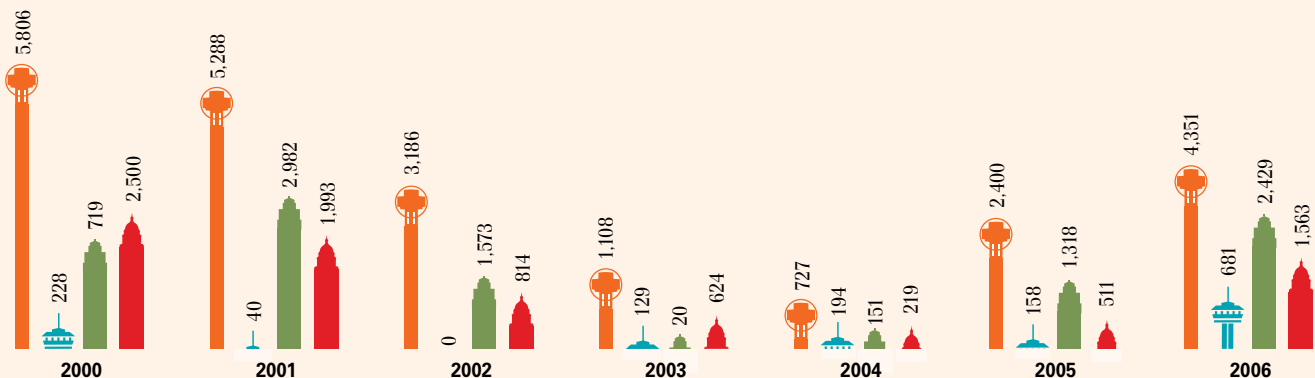


There was plenty of industrial and office space under construction at the end of 2006, space that developers are confident will have tenants when the buildings are completed, according to Ariel Guerrero of Grubb & Ellis.

Industrial space under construction (Thousand square feet)



Office space under construction (Thousand square feet)



Source: Grubb & Ellis (2007 Real Estate Forecast)

Houses are Holding

Texas Housing Market Bucks National Trend

Tamara Plaut, the senior economist for the Texas Comptroller of Public Accounts who has been with the agency for 21 years, interprets housing data associated with the Comptroller's *Biennial Revenue Estimate for 2008-2009*.

Q *Other states seem to be in dire straits. What exactly is a housing bubble?*

A A bubble happens after a boom. Basically, there was a national recession in 2000, 2001 and a big downturn in housing. The Federal Reserve Board lowered interest rates. When the economy came back, the low interest rates and growing economy turned into a housing boom.

People have sold their beginner house and taken out their equity from it to buy a bigger house. That was the strong growth. Prices that were somewhat reasonable then became higher and higher and got out of whack with peoples' ability to pay. Then, the housing market goes into a really big downturn.

Q *What makes Texas so different?*

A Affordable land, an increasing population and a growing number of jobs are all factors contributing to Texas' relatively strong housing market.

Q *So Texas' economy has been strong. But does the state have a housing bubble?*

A No. We had a softer housing market. The prices of houses that are sold and the rate of increase is slowing, but it hasn't gone negative like it has in the rest of the United States.

Q *So it's not a bubble, and we're doing better than the rest of the nation?*

A Nationally, the housing market is in a really big downturn, particularly in the extremely high-priced markets, such as California, Florida and the Northeast. In Texas, our housing has gotten more expensive, but it is still much more affordable relative to household income than in the Northwest, the West Coast and Florida.

Q *What does all that mean for average Texas families? Will they be able to find affordable housing?*

A Texas' economic growth will slow with the nation. Housing permits are still relatively strong, but they have slipped from 21 percent above the previous year's level in the spring to 12 percent below the previous year's level in the fall of 2006. They are going up, but they are at a tipping point, so we predict a downturn in housing starts in Texas. Texas construction activity will lose momentum as the cost of owning or renting a home in Texas pushes closer to the national average of \$227,500. The expected increase in unemployment from 2007-09 will also slow down

the housing market. In the long run, what determines growth in the housing market is the number of new people coming into an area, the household formations and the number of jobs—you can't buy a house without a job. **FN**



Cost of Living Index: How Texas Compares

Biennial Revenue Estimate, Report Find Texas Affordable

In real estate, value is about “location, location, location.” Move a house from Brownsville to the River Oaks section of Houston, and that house will have a higher price tag. That’s part of the “cost of living.”

Apples to Apples

“Cost of living is all the expenses it takes a household to live,” said Winfred Kang, senior research analyst with the Texas Comptroller of Public Accounts. “It would be housing expense, food, medical, transportation and taxes.”

When those costs are indexed, people can compare the cost of living in one city or region compared with another, Kang said.

“It also allows a person to compare what their living expenses are compared to a median,” he said.

A September 2006 report by economic researcher Moody’s Economy.com Inc., the *Regional Financial Review*, reported cost of living trends for cities across the nation for 1999, 2002 and 2005.

The report represented the national average cost of living as a score of 100. Cities with higher costs than average scored an index above 100, and cities lower than average scored below 100. Only one Texas city, Dallas, scored more than 100, with its index of 100.5.

Measuring Up

A high cost of living can signal an expanding economy but also can deter new businesses considering locating in an area, according to Moody’s. Similarly, a low cost of living can draw those relocating but can indicate low wages and weak economic performance.

Dallas’ score, which declined between 1999 and 2005, was slightly more than the national average. In 1999, Dallas’ index was 103.2, the 57th highest cost of living in the

and extraordinary price pressures. The 2005 rating sounds not only accurate, but positive compared with other large metro areas nationwide, Jenkins said.

“We’re the fourth-largest metropolitan area in the country right now, so if we’re right at 100, that means we’re actually very affordable,” she said.

Other Texas cities fared even better. The state’s other major cities—Houston, Austin, San Antonio and El Paso—all had indices in the 90s. Smaller cities, such as Abilene, and Texarkana, mostly registered in the 80s.

By comparison, the nation’s highest cost of living was in San Jose, Calif., with an index of 146.7, and the lowest was Danville, Ill., with 77.3.

“We’re the fourth-largest metropolitan area in the country right now, so if we’re right at 100, that means we’re actually very affordable,” **Lyssa Jenkins** said.

country. In 2002, Dallas’ index decreased to 102.9; and in 2005, it dropped to 100.5, the 82nd highest cost of living.

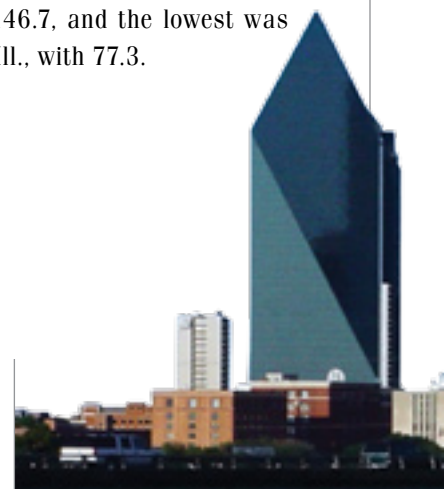
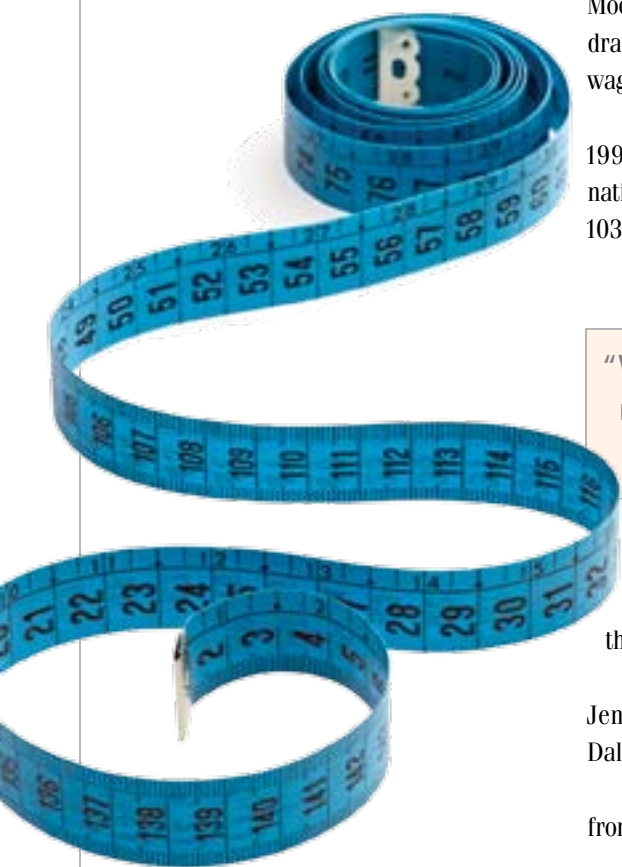
“We’re just normalizing,” said Lyssa Jenkins, chief economist for the Greater Dallas Chamber.

Jenkins said that in 1999, Dallas suffered from labor shortages in high wage industries

Estimating Affordability

Comptroller Susan Combs’ *Biennial Revenue Estimate for 2008-2009* (BRE), released in January 2007, predicted continued affordability for Texas.

Often the biggest expense for a household is housing costs, said Kang. Moody’s found the areas with the highest costs of living



were areas with home prices above the national average.

The BRE found that the percentage of Texas mortgage holders whose housing costs were more than 30 percent of their income increased from 22.4 percent in 2000 to 32.4 percent in 2005. That was below the national

average of 34.5 percent and much lower than several states. In California, 47.7 percent of households spent more than 30 percent of their income on housing. In New Jersey 40.7 percent spent that much; in Florida 40.6 percent did; and in New York 38.9 percent did.

Housing prices in Texas should stay low, according to the BRE. From January through October 2006, the year-over-year increase in the sales price of the average Texas home fell from 8.8 percent to 3.6 percent. If that trend holds, it should keep the cost of living manageable for many Texans. **FN**



Keeping it Low

Texas cities are more affordable than most across the nation. The national average cost of living, according to a report by Moody's Economy.com Inc., is indexed as a score of 100, and only one Texas city scored above that average.

A sampling of Texas cities' cost of living, 2005

City	Cost of living index
Dallas	100.5
Houston	97.1
Austin	96.6
San Antonio	93.9
El Paso	91.2
Lubbock	87.9
Abilene	85.6
Texarkana	85.0
Brownsville	82.2

Source: Moody's Economy.com Inc., *Regional Financial Review*.

A More Refined Texas

Port Arthur Refinery Would Become Nation's Largest

When construction crews complete a proposed \$3.5 billion expansion of the Motiva refinery in Port Arthur in 2010, it would be the largest oil refinery in the country.

That's a welcome bit of news for an industry that appeared to be slipping down the backside of a peak it hit in fiscal 2006. Texas has bet big on refineries—the state is home to 25, including six of the 12 highest-producing facilities in the nation, according to a January 2006 list by the

Energy Information Administration (EIA), part of the U.S. Department of Energy.

While refining and other oil- and gas-related industries, including exploration, extraction and refining activities, and related manufacturing make up only 3 percent of statewide employment, or 317,000 jobs, their ebbs and flows have a disproportionate effect on the state's economy. That's because the sector's high-wage jobs accounted for 11 percent of statewide economic output in 2005.

Texas employment saw substantial jumps in fiscal 2005 and 2006, but will drop about 1.9 percent a year in fiscal 2008 and 2009,

according to the Comptroller's *Biennial Revenue Estimate for 2008-2009*.

Boom in Bloom

That makes Motiva's expansion and the estimated \$17 billion it is expected to generate for Jefferson County critical.

"The proposed project is expected to require more than 3,500 construction jobs and generate about 300 new permanent jobs upon completion," said Stan Mays, spokesman for Motiva Enterprises LLC, a U.S.-based refining and marketing joint venture of Saudi Refining Inc. and Shell Oil Company.



Photo: Texas Department of Transportation



1901

Lucas Field gusher blows at Spindletop oil field.



1903

The Texas Company begins processing crude from Spindletop.



1957

Port Arthur becomes the world's largest oil refining complex.



Motiva is working with the Texas Workforce Commission, Lamar State College, the Southeast Texas Workforce Development Board, local school systems and other organizations to recruit and train a qualified work force for the project.

Accommodating the facility will bring big changes to Port Arthur, a city of 56,000 that lies 90 miles east of Houston in Jefferson County. The city is already growing, thanks to the Motiva expansion and other area industrial projects, said Verna Rutherford, president of the Port Arthur Chamber of Commerce.

“The proposed project is expected to require more than 3,500 construction jobs and generate about 300 new permanent jobs upon completion,” said **Stan Mays, spokesman for Motiva Enterprises.**

“Our residents are definitely noticing increased activity in the area,” she said. “Hotels, apartments and RV parks have been filled to capacity, and many developments are

underway for a large number of new homes, apartments, hotels and RV parks.”

Even the traffic is thicker, Rutherford said.

“These are great challenges to have, and community leaders are working closely together to create solutions,” she said.

The project, scheduled for completion in 2010, would increase refining capacity by 325,000 barrels of crude oil per day, bringing the total to 600,000 barrels, according to Motiva. The refinery's major products include gasoline, distillates, jet fuel, lubricant base oils, chemicals and solvents. On January 1, 2006, Motiva's Port Arthur refinery was the

sixth largest in Texas and 12th largest in the United States, according to EIA.

Adding 325,000 barrels per day of refining capacity would be the equivalent of building a new high-capacity refinery in the United States, according to Motiva.

Houston-based Motiva owns and operates refineries capable of refining about 780,000 barrels per day. Its marketing operations support a network of about 7,700 Shell-branded gasoline stations in the eastern and southern United States.

Mays said the domestic oil market can support the expansion.

Keeping it Clean

When Motiva applied for a state permit in 2006 to expand its Port Arthur refinery, one environmental group, Global Community Monitor, assembled a national team to work with a local group, Community In Power and Development Association (CIDA).

"We were concerned with the emissions levels that would be added to our community," said CIDA founder Hilton Kelley.

The group approached Motiva, offered its expertise in the region and was able to come to an agreement during the permit process.

The result was the creation of a \$3.5 million community development foundation, which should be operational by June or July of 2007, and enhanced community air monitoring, according to Kelley.

Residents who live within a one-mile radius of the Motiva refinery will receive free health care and free transportation to and from health facilities, Kelley said.

"They [Motiva] will work with people who live on the fence line," Kelley said.

The company maintains that while the proposed expansion would increase refining capacity, modern design and technology would minimize emissions.

"We've had a tremendous amount of support overall, especially in the way we've approached the project from an environmental standpoint," said Stan Mays, spokesman for Motiva Enterprises.

"For ozone precursors, specifically nitrogen oxides and volatile organic compounds, the expansion of the refinery would actually decrease these emissions from present-day levels," Mays said. "We've had a tremendous amount of support overall, especially in the way we've approached the project from an environmental standpoint."

Mays said the company has a history of taking environmental responsibility seriously, and the company will continue to do so during the expansion.

Historic Highlights

The current boom is a welcome one, but it is not Port Arthur's first. That came in 1901, when the city got its first taste of the oil business after the Lucas Field Gusher at Spindletop oilfield, according to Yvonne Sutherlin of the Jefferson County Historical Society.

In 1903, the Texas Company, which later became Texaco, began processing crude oil from Spindletop oilfield that was then carried overland by pipeline. That facility later became the Motiva refinery.

In 1957, Port Arthur was known as the world's largest oil refining complex, Sutherlin said.

The Motiva expansion will allow it to take the top national spot from another Texas facility, ExxonMobil's Baytown refinery, which refines 557,000 barrels of crude oil per day. **FN**



Photo: Texas Department of Transportation

The State of the Texas Economy



in law on likely tax collections, often using sophisticated econometric models to track and predict trends.

High-Tide Years

In the last two years, Texas enjoyed its most rapid economic growth in nearly a decade. The state economy expanded at an estimated, inflation-adjusted rate of 4.5 percent this biennium, easily surpassing

fiscal 2006 and an estimated 6.7 percent for fiscal 2007. That performance marked a stark—and welcome—contrast from just a few years earlier. In the 2002-03 biennium, the economy grew by just 1.8 percent annually, and lost more than 155,000 jobs.

The recent strong performance resulted from several factors. One of them was simply the strong national economy; many Texas companies serve national and international markets, and benefited from the general improvement as the shocks of 9/11 receded. After declining for six years, for example, Texas manufacturing employment increased modestly in 2005-06.

The soaring energy prices that raided wallets and raised blood pressure last summer also provided a boost to Texas' producers.

"The rapid acceleration in the price of natural gas and oil over the past few years has led to more exploration and drilling activity [in the state]," Heleman said.

In fiscal 2006, the state's rig count hit its highest level since 1985.

And one of the nation's strongest housing markets also buoyed the economy, in more ways than one. Low mortgage rates, for instance, spurred an increase in homeowner refinancing.

"We saw a rapid rise in the number of people using the cash-out option when they refinanced their homes," Heleman said. As U.S. and Texas housing markets have moderated, mortgage equity withdrawals have as well. In fact, national data indicates these types of transactions quadrupled between 2000 and 2005.

"This is a great time in Texas," said Texas Comptroller Susan Combs. "Our state's strong economy is continuing to produce revenue growth to serve Texans' needs. However, it is my duty as Comptroller to point out that I do expect a cooling of the economy in the months ahead."

Texans gave the Comptroller this responsibility more than 60 years ago, with the 1943 adoption of a "pay as you go" provision in the Texas Constitution. This provision requires the Comptroller to produce an itemized estimate of anticipated revenue for an upcoming budget cycle. The Legislature cannot make appropriations for the budget period exceeding the Comptroller's BRE except by a four-fifths vote of each house.

"To produce the BRE, the first thing we do is a forecast of the Texas economy," said John Heleman, the Comptroller's chief revenue estimator. "We consult with large economic forecasting houses throughout America, and find out what they think is going to be the direction of the U.S. economy. Then our economists develop our own forecast for Texas. That forecast of the Texas economy provides the underlying basis for the BRE, as all taxation depends upon economic activity of some sort."

Comptroller revenue estimators assigned to specific taxes follow the industries involved and the effects of economic events and changes

the national growth rate. This expansion is expected to add nearly 462,000 jobs in the state during the current 2006-07 budget cycle.

And that growth showed up in Texans' wallets. Rising employment and higher wages lifted statewide personal income by 7.4 percent in



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Bloom off the Boom

For better or worse, the heated economic activity of the last few years seems poised to cool down, not in a slump, but a correction.

"The housing market has held up remarkably well compared to other states in the Southwest," **Bruce Keller** said. "We haven't seen the softness in prices that they have in other markets. That's definitely an encouraging sign."

Oil and gas prices remain extremely sensitive. "Oil was up around \$70, and gas was around \$7 or \$8 per mcf [thousand cubic feet]. In [2008-09], we see oil in the range of the lower to mid-50s, in terms of taxable value, and gas at about \$6 per mcf," Heleman said. "And that is going to translate into less revenue for the state."

Of course, lower energy prices have positive effects as well, said Bruce Keller, associate director of the University of Texas' Bureau of Business Research (BBR).

"The energy situation is a double-edged sword," Keller said. "It [hurts] energy producers and some service companies, but it benefits the state's consumers. So it's sort of a wash."

Over 2008 and 2009, the Texas housing sector will feel the effects of the nationwide slump in housing starts and prices, although not as keenly as most other states.

"The country's coasts are having significant downturns in housing," Heleman said. "Texas will not see a drastic downturn because our housing has never been overvalued, but we certainly are going to see a slowdown."

"And we can see from federal data that refinancings are dropping off from the levels of the past few years. As that happens, of course, you have more and more people that don't have these extra dollars in their pockets, and they're not turning around and spending

money. So retail spending is expected to return to a more sustainable level," he said.

Yet housing remains a relative bright spot for Texas, particularly compared with other states.

"The housing market will slow, but non-residential construction remains strong," said Ray Perryman, president of The Perryman Group, a Waco-based economic and financial analysis firm.

BBR's Keller agrees.

"The housing market has held up remarkably well compared to other states in the Southwest," he said. "We haven't seen the softness in prices that they have in

other markets. That's definitely an encouraging sign."

Despite the slowdown, the Comptroller's office expects Texas to add more than 412,000 jobs during 2008-09.

Revenues Rise Anyway

Since state finances rely on the condition of the underlying state economy, a slowdown inevitably will result in less growth in revenue for state government. Even so, the \$82.5 billion for general-purpose spending estimated for fiscal 2008 and 2009 represents a 10 percent increase over revenues for the previous two fiscal years.

This amount represents a combination of taxes (\$67.7 billion); other revenues such as fees, licenses, lottery proceeds and interest and investment income (\$9.8 billion); and the previous biennium's ending balance, less transfers to the state's Rainy Day Fund and other adjustments (\$5 billion).



"Overall, I'm very bullish. [Metropolitan economies] are moving on eight cylinders," said Angelos Angelou, principal of Angelou Economics, an Austin economic development consultancy.



Sales taxes are the state's biggest single source of revenue. After jumping an impressive 12 percent in fiscal 2006, the largest such increase (after adjusting for inflation) since 1978, the BRE reports that the growth in sales tax collections will taper somewhat. The BRE projects that sales taxes will generate \$41.5 billion in the 2008-09 biennium, a 10.1 percent increase over the previous two years.

Motor vehicle sales taxes, the state's second-largest tax, are expected to bring in \$6.9 billion in 2008-09, about 8.7 percent more than in the previous biennium.

The state's primary business tax, the franchise tax, will change during the course of the next budget cycle as 2006 legislation goes into effect on January 1, 2008. At present, the tax applies to corporations, but under the new law, a modified version of the tax will be applied to other forms of business as well, including partnerships, but excluding sole proprietorships.

This will generate total 2008-09 revenues of \$11.9 billion, more than twice as much in the previous biennium. But only \$5.8 billion of that will be available for general appropriations, with the remainder devoted to school property tax relief.

The BRE projects that some tax collections will fall, particularly those on oil production and natural gas. These still important contributors to the state economy will play a somewhat smaller role in the next budget cycle, falling 13.6 percent and 15.1 percent respectively—due to declining energy prices—bringing in a combined \$4.9 billion over 2008-09.

Down the Road

Of course, any attempt to forecast the future of an economy as large and vibrant as Texas' is subject to events that cannot be

predicted. The BRE highlights some potential factors that could change the outlook for the state.

Most importantly, any significant increase in interest rates could hurt economic growth and in particular could deepen and lengthen

"The state is getting more Hispanic, and opportunities for minority entrepreneurs are going to be significant," Keller said. "Business that caters to the Hispanic market is going to expand hugely in the next two decades. There will be more and more roles for Hispanic entrepreneurs, including Mexican-based companies moving into the Texas market."

the housing downturn. And a sustained increase in interest rates would increase the cost of borrowing, limiting household and business spending on "big-ticket" items such as vehicles, large appliances and computer equipment.

Furthermore, political or other disruptions to world oil supplies could drive energy prices up sharply again. This would have some good effects for Texas' oil and gas producers, but these would likely be outweighed by the long-term drag on the state and national economies.

On the other hand, independent economists seem upbeat about the future.

"Overall, I'm very bullish. [Metropolitan economies] are moving on eight cylinders," said Angelos Angelou, principal of Angelou Economics, an Austin economic development consultancy. "Yes, we may be seeing a [national] slowdown in residential housing, but I

think Texas is going to be spared from most of those declines.

"There's a lot of venture capital spending in the state, and hopefully, the growth in the technology sectors will offset any slowdown that may occur in housing and soften the impact that lower energy prices might have," he said. "[Technology] entrepreneurship is exactly what is driving the Austin economy and to some extent the Houston and Dallas economies."

Angelou stressed the contributions of the state's economic development efforts.

"Texas has done rather well, particularly because two state incentive programs—the Enterprise Fund and the Emerging Technology Fund—are making a big difference. I think they're fueling economic growth in all parts of Texas," he said.

Keller said he would focus on the changing demographics of the state.

"The state is getting more Hispanic, and opportunities for minority entrepreneurs are going to be significant," he said. "Business that caters to the Hispanic market is going to expand hugely in the next two decades. There will be more and more roles for Hispanic entrepreneurs, including Mexican-based companies moving into the Texas market."

Increasingly, the state economy is going to be driven by demographics that are rapidly altering the landscape, Keller said. State funding targeted for encouraging minority entrepreneurs could pay big dividends.

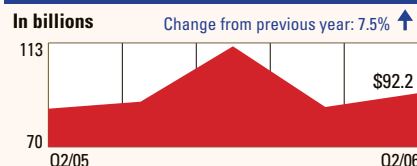
"That's where the bigger bang for the state's dollars is going to be," he said. **FN**

Texas by the Numbers

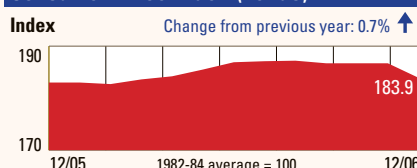
Key Economic Indicators

The Texas unemployment rate is at its lowest level since 2001, while the state's consumer confidence is holding near its highest level since 2000. The health of the state's industrial production and the energy exploration industry, where the rig count is at a 22-year high, have contributed to these improvements. Corporate profits have translated into substantial personal income growth, but productivity increases and relatively slow housing construction have restrained employment growth.

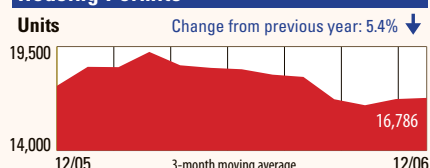
Retail Sales



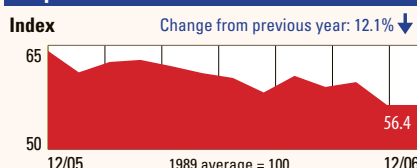
Consumer Price Index (Texas)



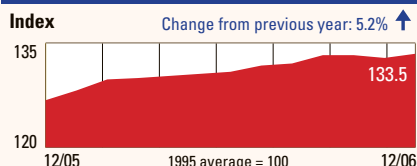
Housing Permits



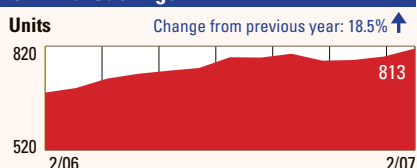
Help Wanted



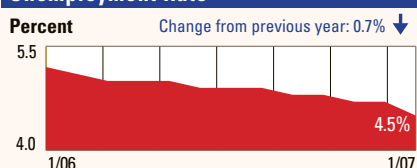
Industrial Production



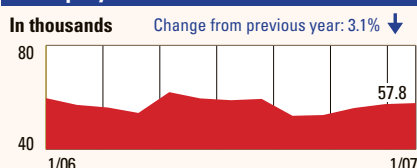
Oil And Gas Rigs



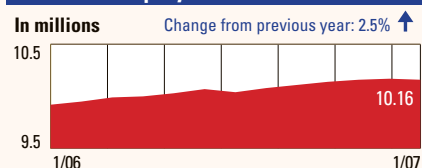
Unemployment Rate



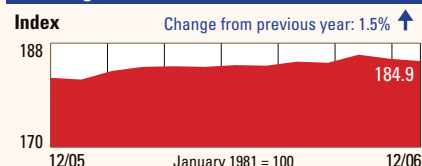
Unemployment Initial Claims



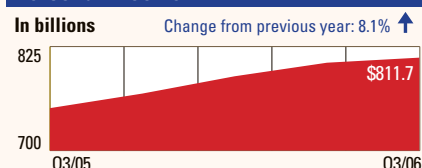
Non-farm Employment



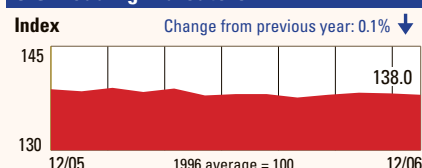
Leading Indicators



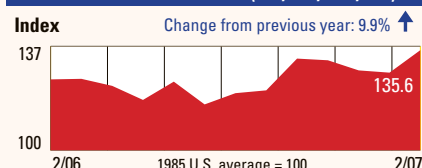
Personal Income



U.S. Leading Indicators



Consumer Confidence* (Tx, La, Ok, Ar)



Texas Production and Consumption Indicators

(Amounts in millions)

Date	Crude oil		Natural Gas		Motor Fuel		Cement	Auto sales	Cigarette
	Barrels	Value	Thousands of Cubic Ft.	Value	Gasoline	Diesel	Tons	Net Value (Estimated)	Pkgs. Taxed
2002	370.4	\$ 8,792.2	3,049.8	\$10,807.3	10,863.0	2,971.7	13.8	\$43,516.5	1,282.3
2003	347.2	8,451.9	3,134.8	8,706.5	11,353.6	3,107.4	13.6	41,585.7	1,270.3
2004	329.1	12,811.1	2,973.4	15,158.9	11,326.8	3,305.9	15.2	39,174.6	1,228.9
2005	324.9	17,128.2	3,232.2	22,164.5	11,285.5	3,463.3	16.5	41,955.3	1,239.0
2006	314.6	19,353.5	4,029.3	23,500.8	11,372.8	3,731.6	17.0	45,756.2	1,280.2
Last 13 months	1/06-1/07		12/05-12/06		2/06-2/07		1/06-1/07		2/06-2/07
	27.5	\$1,678.4	304.9	\$2,372.2	909.1	291.7	1.34	\$3,500.3	89.9
	24.7	1,422.0	311.3	2,356.5	858.9	282.4	1.26	3,240.2	111.7
	26.6	1,509.7	283.3	1,792.4	969.4	334.8	1.57	3,779.0	94.1
	25.2	1,628.5	321.9	1,881.4	938.4	309.7	1.41	3,776.9	114.7
	27.1	1,801.8	315.8	1,900.8	1,010.0	300.7	1.50	4,040.8	110.9
	26.2	1,744.4	341.8	1,944.0	943.5	326.3	1.53	4,186.8	102.3
	26.7	1,863.0	330.2	1,771.4	954.8	321.6	1.32	4,020.0	108.2
	26.3	1,812.6	349.0	1,924.5	960.8	322.0	1.57	4,331.1	109.6
	25.7	1,542.2	357.3	2,194.5	959.8	313.4	1.40	4,118.4	107.6
	26.5	1,455.6	349.0	1,932.1	969.3	326.5	1.40	3,989.7	124.6
	25.8	1,400.9	364.2	1,503.9	942.2	299.9	1.43	3,436.7	117.3
	26.3	1,494.4	351.6	2,110.4	963.1	300.9	1.24	3,336.3	75.0
	25.4	1,278.6	353.9	2,188.8	923.2	299.5	1.15	3,669.5	68.5

Notes: Crude oil and natural gas show taxable production and net taxable value for the production month. Oil and gas data are revised monthly from taxpayer records. Gasoline gallons include gasoline. Auto sales estimates are calculated from motor vehicle taxes that include taxable transactions in addition to the sale of new and used motor vehicles. Previous year totals may not match totals shown online due to updates.

Sources for Data

Retail sales, Leading Indicators Index, Help-Wanted Index, Industrial Production Index: Texas Comptroller of Public Accounts

Non-farm Employment, Unemployment Initial Claims: Texas Comptroller of Public Accounts and Texas Workforce Commission

Texas Consumer Price Index: Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics

Unemployment Rate: U.S. Bureau of Labor Statistics

Oil/Gas Rig Count: Baker-Hughes Inc.

Consumer Confidence Index: Texas Comptroller of Public Accounts and The Conference Board

U.S. Leading Indicators Index, Personal Income: U.S. Bureau of Economic Analysis

Texas Housing Permits: U.S. Bureau of the Census

Notes: All figures are seasonally adjusted, except for the rig count, retail sales and consumer confidence. All figures are monthly except for retail sales and personal income, which are quarterly.

Figures are based on most recent available data.

March Cash Condition¹

(Amounts in millions)	General Revenue	Other Funds	Total Cash
Beginning Balance Mar.1, 2007	\$9,847.9	\$9,620.7	\$19,468.6
Revenue/Expenditures			
Revenue	5,685.6	1,332.8	7,018.4
Expenditures	4,468.5	1,986.9	6,455.4
Net Income (outgo)	\$1,217.1	\$-654.1	\$563.0
Net Interfund Transfers and			
Investment Transactions	\$-550.9	\$663.5	\$112.6
Total Transactions	666.2	9.4	675.6
End Cash Balance Mar. 31, 2007 ²	\$10,514.1	\$9,630.1	\$20,144.2

¹ Cash stated is from the Comptroller's Uniform Statewide Accounting System (USAS) and will vary from the amounts reflected in the cash accounts of the Treasury Operations Division of the Comptroller due to timing differences. Net amounts shown (less refunds) exclude some transactions not cleared through the Comptroller's office. Suspense and Trust Funds are included, as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

² The ending General Revenue Fund Balance includes \$4.3 billion derived from the sale of cash management notes.

State Revenue/All Funds¹

(Amounts in millions)	Monthly Revenue	Fiscal Year-to-Date Sept. 2006-Mar. 2007	
	March 2007	Revenue	% Change YTD/YTD
Tax Collections by Major Tax			
Sales Tax	\$1,540.5	\$11,526.3	11.1%
Oil Production Tax	66.5	468.6	-2.7
Natural Gas Production Tax	142.5	1,070.9	-29.7
Motor Fuels Taxes (Gasoline, Diesel, LPG)	237.2	1,753.9	2.5
Motor Vehicle Sales/Rental and			
Manufactured Housing Taxes	281.9	1,832.8	9.9
Franchise Tax	272.1	388.5	37.5
Cigarette and Tobacco Taxes	139.1	554.4	84.8
Alcoholic Beverages Taxes	58.0	410.5	6.9
Insurance Taxes	457.7	829.2	11.3
Utility Taxes ²	0.1	238.2	10.3
Inheritance Tax	1.0	3.7	-58.4
Hotel and Motel Tax	27.2	181.4	11.7
Other Taxes ³	8.4	449.2	-3.7
Total Tax Collections	\$3,232.1	\$19,707.6	7.6%
Revenue by Receipt Type			
Tax Collections (see above)	\$3,232.1	\$19,707.6	7.6%
Federal Income	1,949.2	13,444.5	-4.6
Interest and Investment Income	249.2	1,507.3	15.2
Licenses, Fees, Permits, Fines and Penalties	367.2	3,487.5	6.2
Employee Benefit Contributions	397.6	2,491.8	3.8
Sales of Goods and Services	49.9	238.5	-22.2
Land Income	66.6	486.4	-8.8
Net Lottery Proceeds ⁴	150.2	917.5	-2.7
Other Revenue Sources	556.3	3,815.6	5.0
Total Net Revenue	\$7,018.4	\$46,096.5	2.8%

¹ Excludes some revenue not cleared through the Comptroller's office. Totals may not add due to rounding.

² Includes the utility, gas utility administration and public utility gross receipts taxes.

³ Includes the cement and sulphur taxes and other occupation and gross receipt taxes not separately identified.

⁴ Gross sales less retailer commissions and the smaller prizes paid by retailers.

State Expenditures/All Funds¹

(Amounts in millions)	Monthly Expenditures	Fiscal Year-to-Date Sept. 2006-Mar. 2007	
	March 2007	Expenditures	% Change YTD/YTD
By Object			
Salaries and Wages	\$816.8	\$5,578.0	5.3%
Employee Benefits/			
Teacher Retirement Contribution	654.5	4,556.7	8.4
Supplies and Materials	65.7	444.5	-1.6
Other Expenditures	282.4	1,447.7	5.6
Public Assistance Payments	2,440.8	16,473.2	5.4
Intergovernmental Payments:			
Foundation School Program Grants	545.0	10,008.3	63.2
Other Public Education Grants	369.6	2,557.3	-46.9
Grants to Higher Education	106.2	552.8	-6.1
Other Grants	160.6	1,120.0	-19.7
Travel	11.8	75.1	12.2
Professional Services and Fees	145.9	1,132.3	-0.5
Payment of Interest/Debt Service	210.5	503.9	46.1
Highway Construction and Maintenance	430.9	3,379.8	9.5
Capital Outlay	29.7	196.9	-32.4
Repairs and Maintenance	41.0	324.3	-2.1
Communications and Utilities	54.8	360.3	-1.6
Rentals and Leases	20.5	146.0	-3.6
Claims and Judgments	7.7	46.9	-25.9
Cost of Goods Sold	58.1	426.1	1.4
Printing and Reproduction	3.0	25.7	9.2
Total Net Expenditures	\$6,455.4	\$49,355.9	6.9%
By Function			
General Government			
Executive	\$487.6	\$2,933.8	4.5%
Legislative	11.0	73.8	5.9
Judicial	14.0	134.9	17.4
Subtotal	512.6	3,142.5	5.1
Health and Human Services	2,351.6	15,933.9	5.0
Public Safety and Corrections	323.5	2,287.6	-9.5
Transportation	616.7	4,684.4	5.9
Natural Resources/Recreational Services	149.3	1,046.5	8.6
Education	1,644.3	17,259.4	12.2
Regulatory Agencies	19.9	141.7	-1.8
Employee Benefits	554.1	3,911.7	6.6
Debt Service—Interest	210.5	503.9	46.1
Capital Outlay	29.7	196.9	-32.4
Lottery Winnings Paid ²	43.2	247.4	-3.9
Total Net Expenditures	\$6,455.4	\$49,355.9	6.9%

¹ Excludes some expenditures not cleared through the Comptroller's office. Totals may not add due to rounding.

² Does not include payments made by retailers. Previously shown as "Other expenditures."

Some revenue and expenditure items have been reclassified, changing year-to-date totals. The ending cash balance is not affected because changes reflected in "total net revenues" and "total net expenditures" offset changes in "net interfund transfers and investments transactions" in the cash condition table.

Revenues and expenditures are reported for the most recent month available and as a running total for the current fiscal year-to-date. In addition, year-to-date figures are compared with the same period in the last fiscal year. These comparisons are reported as percentage changes, which may be positive or negative (shown by a minus sign).

Trust fund transactions are included within revenues and expenditures in the "all funds" presentations. Trust funds are not available to the state for general spending.

Texas stats production: Tyra Peterson, Public Outreach and Strategies Division.
Economic data: Gary Preuss and Winfred Kang, Revenue Estimating Division.
State financial tables: Ann Zigmund, Fund Accounting Division.

SUSAN COMBS

Texas Comptroller of Public Accounts



FISCAL NOTES is one of the ways the Comptroller's office strives to assist taxpayers and the people of Texas. The newsletter is a by-product of the Comptroller's constitutional responsibilities to monitor the state's economy and to estimate state government revenues.

FISCAL NOTES also provides a monthly summary of the financial statements for the State of Texas.

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Made for Trade

Texas leads the way when it comes to exports. In 2006, Texas exports totaled nearly \$151 billion and accounted for 16.3 percent of all U.S. exports, up from 9.8 percent in 2004-05, according to the World Institute for Strategic Economic Research (WISER). California was second, with nearly \$128 billion.

Texas' top trading partner is Mexico. In 2006, the Lone Star State's neighbor to the south received \$54.9 billion in Texas goods and services, accounting for more than 38.9 percent of the state's total exports.



FISCAL NOTES

A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts

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